75 YEARS
1934 – 2009

FINANCIAL STATEMENTS 2008

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2008

The directors submit the Annual Report and financial statements to the members for the year ended 31 December 2008.

PRINCIPAL ACTIVITY

The company's principal activity is the collection of licence fees for broadcasting and public performance of sound recordings on behalf of its members.

The total amount available for distribution is distributed to the company's members and performers, with the intention that there are no retained reserves at any particular balance sheet date. The recognition of the net pension liability on introduction of FRS17 in 2005, resulted in a deficit on the income, expenditure and distribution account.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

During the year the company increased its licence fee revenue from most sources in accordance with management objectives. It is expected that this trend will continue.

PPL considers its key performance indicators to be revenue, revenue growth and cost to revenue ratio. 2008 was a year when the company delivered a strong set of results with distributable revenue growing by 11% to £110.3 million. Broadcasting income grew by £1.2 million (2%) despite an 8% fall in commercial radio revenues, which was as a direct result of a downturn in advertising revenue in this sector. In addition, public performance revenue grew by £5.2 million (11%). International revenue increased by £6.3 million (69%) to £15.4 million. Despite further investment in IT systems and employees, the cost to revenue ratio remained at 14.6%, as per the 2007 cost ratio.

BUSINESS ENVIRONMENT

In tough market conditions for PPL's members the changes within the music business in recent times have been immense. Sales of physical music carriers continue to decline generally around the world though the 'use' of music continues to grow as media expands and public performance and dubbing increases.

STRATEGY

It is critical that the company plans carefully for the future. Investment in systems will continue to meet the demands of increasing membership, evolving media, new tariffs and the developments that the company has started, and will continue, to make in overseas collection for members and performers. In addition to investment in systems, the company will continue to place increasing emphasis on staff and employee training. The company needs to maintain the high quality of service for members and performers against a backdrop of increasing media platforms and expanding numbers of territories.

PRINCIPAL RISKS AND UNCERTAINTIES

A number of PPL's new public performance tariffs remain subject to review by the Copyright Tribunal following a reference in 2005. The Tribunal has yet to reach a decision and PPL continues to license users under its new tariffs pending such a decision.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2008

AUDITORS AND DISCLOSURE OF INFORMATION TO AUDITORS

PricewaterhouseCoopers LLP are the auditors of PPL.

For each of the persons who were directors at the time this report was prepared, the following applies:

– so far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware; and

– the directors have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the annual general meeting.

CHARITABLE DONATIONS

The following charitable donations were made during the year ended 31 December 2008:

Hospital Broadcasting Association
£26,000

The Young Musicians Symphony Orchestra
£5,000

Crisis UK (in lieu of Christmas cards)
£3,000

Young Persons Concert Foundation
£10,000

Justice for Kirsty Campaign
£1,000

DIRECTORS AND THEIR INTERESTS

The directors of the company who served throughout the year from 1 January 2008 to 31 December 2008, unless otherwise noted, were as follows:

G Barnham

M Batt (appointed 18 November 2008)

D Carroll

A Clark

J French

P Harris (resigned 6 January 2008)

G Holmes (resigned 18 October 2008)

D McGonigal

M Mills

F Nevrkla

G Newson

P Leathem

N Parker

J Radice

A Sear (appointed 11 March 2008)

Rt Hon Lord Smith of Finsbury

M Smith

J Smith

J Watson

None of the directors who held office at the end of the financial year had any disclosable interest in the company.

By Order of the Board

Peter Leathem

P LEATHEM
SECRETARY

21 APRIL 2009

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PPL
FOR THE YEAR ENDED 31 DECEMBER 2008

We have audited the financial statements of PPL for the year ended 31 December 2008 which comprise the Income, Expenditure and Distribution Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman and CEO's Statement, The Year's Highlights, A Few Facts, The UK's Pop Favourites, The UK's Classical Favourites, Business Review, Broadcasting, Public Performance and Dubbing, International, Member Services, PPL and The Government, Our Culture, Corporate Social Responsibility, Our People, In Action, We Are 75 and How The World Sees Us, Executive Management Team, Senior Management Team and Board of Directors. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PPL

FOR THE YEAR ENDED 31 DECEMBER 2008

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its result and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the financial statements.

PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS LLP

CHARTERED ACCOUNTANTS AND REGISTERED AUDITORS

LONDON

22 APRIL 2009

INCOME, EXPENDITURE AND DISTRIBUTION ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2008

	NOTE	YEAR ENDED 31 DECEMBER 2008 £'000	YEAR ENDED 31 DECEMBER 2008 £'000	YEAR ENDED 31 DECEMBER 2007 £'000	YEAR ENDED 31 DECEMBER 2007 £'000
Licence fee income	2		127,648		114,966
Cost of collection and distribution		(18,638)		(16,834)	
Cost of servicing the defined benefit pension scheme		(343)		(408)	
Total cost of collection and distribution			(18,981)		(17,242)
NET INCOME FROM OPERATING ACTIVITIES BEFORE INTEREST AND TAXATION	3		108,667		97,724
Interest receivable			4,459		4,060
Interest payable	5		(2,903)		(2,476)
Other finance income	13		45		177
NET INCOME FROM OPERATING ACTIVITIES BEFORE TAXATION			110,268		99,485
Taxation	8		–		–
AMOUNT AVAILABLE FOR DISTRIBUTION			110,268		99,485
Anti-piracy/copyright protection contributions	4		(2,473)		(2,420)
Amount to be distributed to members and performers			(107,795)		(97,065)
RETAINED RESERVES			Nil		Nil
Cost to Income Ratio (excluding pension scheme costs)			**14.6%**		**14.6%**

The results above relate entirely to continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 DECEMBER 2008

	NOTE	YEAR ENDED 31 DECEMBER 2008 £'000	YEAR ENDED 31 DECEMBER 2007 £'000
Retained reserves		–	–
Actuarial gain/(loss) on the pension scheme	14	780	(361)
Movement in deferred tax on the pension scheme	14	(187)	(151)
TOTAL RECOGNISED GAINS/(LOSSES) FOR THE YEAR		593	(512)

BALANCE SHEET

AS AT 31 DECEMBER 2008

	NOTE	31 DECEMBER 2008 £'000	31 DECEMBER 2008 £'000	31 DECEMBER 2007 £'000	31 DECEMBER 2007 £'000
FIXED ASSETS					
Tangible assets	9		2,993		3,397
CURRENT ASSETS					
Licence fees receivable		17,701		29,277	
Other debtors		2,174		1,942	
Prepayments and accrued income		2,475		2,477	
Short term fixed deposits		73,000		55,000	
Cash at bank and in hand		18,905		23,520	
		114,255		112,216	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	10	(116,080)		(114,933)	
NET CURRENT LIABILITIES			(1,825)		(2,717)
TOTAL ASSETS LESS CURRENT LIABILITIES			1,168		680
PROVISIONS FOR LIABILITIES AND CHARGES	11		(1,914)		(1,310)
NET PENSION LIABILITY	13		(985)		(1,694)
NET LIABILITIES			(1,731)		(2,324)
RESERVES					
Income, expenditure and distribution account	14		(1,731)		(2,324)

The financial statements which comprise the Income, Expenditure and Distribution account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes were approved by the board of directors on 21 April 2009 and are signed on its behalf by:

F NEVRKLA
DIRECTOR

J FRENCH
DIRECTOR

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

	NOTE	YEAR ENDED 31 DECEMBER 2008 £'000	YEAR ENDED 31 DECEMBER 2008 £'000	YEAR ENDED 31 DECEMBER 2007 £'000	YEAR ENDED 31 DECEMBER 2007 £'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	15		121,870		80,668
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE					
Interest received		4,396		3,528	
Interest paid		(3,459)		(2,612)	
Net cash inflow from returns on investments and servicing of finance			937		916
CAPITAL EXPENDITURE					
Payment to acquire tangible fixed assets		(591)		(1,268)	
Net cash outflow from capital expenditure			(591)		(1,268)
DISTRIBUTIONS					
Payments to members and performers		(104,855)		(75,612)	
Anti-piracy/copyright protection contributions paid		(3,976)		(1,962)	
Net cash outflow from distributions			(108,831)		(77,574)
NET CASH INFLOW BEFORE USE OF LIQUID RESOURCES			13,385		2,742
MANAGEMENT OF LIQUID RESOURCES					
(Increase)/decrease in cash placed on fixed term deposits			(18,000)		2,000
(DECREASE)/INCREASE IN CASH	16		(4,615)		4,742

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom and the Companies Act 1985. A summary of the more important accounting policies, which have been applied consistently, is set out below.

a. Format of income, expenditure and distribution account and the balance sheet

The formats of the income, expenditure and distribution account and the balance sheet have been adapted from that prescribed by Schedule 4 to the Companies Act 1985 in order to better reflect the nature of the business.

b. Basis of accounting

The financial statements have been prepared on the going concern basis under the historical cost convention.

c. Contributions to pensions

During the year the company operated a contributory defined benefit pension scheme covering its permanent employees and those of Video Performance Limited. FRS17 'Retirement Benefits' requires the net pension asset or liability of a company's pension scheme to be recognised in full on the balance sheet. Since PPL makes the majority of contributions to the pension scheme and is also making additional contributions in order to fund the deficit, then it is PPL who bears the risks and rewards of the deficit or surplus in the scheme. Accordingly the full net pension liability has been recorded in the balance sheet of PPL and no liability has been recorded in Video Performance Limited.

The regular service cost of providing pension benefits to employees during the year, together with the costs of any benefits relating to past service, is charged to costs of collection and distribution in the income, expenditure and distribution account in the year.

Interest on the pension scheme liabilities is charged to other finance costs in the income, expenditure and distribution account.

The expected return on the assets of the pension scheme during the year is based on the market value of the assets at the start of the financial year and is offset within other finance costs in the income, expenditure and distribution account.

The difference between the actual and expected return on the assets of the scheme is shown in the statement of total recognised gains and losses for the year, along with any related movement in deferred tax.

The difference between the market value of the assets and the present value of the scheme liabilities is shown net of deferred tax in the balance sheet.

PPL has adopted the amendment to FRS17 'Retirement Benefits' in the current year.

d. Licence fee income

Licence fee income, which excludes value added tax, represents the invoiced value, and is recognised evenly over the period of the licence term.

Licence fee income from overseas societies is recognised when an agreement is in place with the overseas society and on a cash received basis.

1. ACCOUNTING POLICIES CONTINUED

e. Tangible fixed assets

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition.

Depreciation is provided at rates calculated to write off the cost of each asset over the expected useful life or pre-determined replacement date:

Fixtures and fittings	3 years
Office equipment	3 years
Computer hardware	3 years
Computer software (systems)	5 years
Computer software (other)	3 years

f. Unclaimed Members' and Performers' distributions

Allocations to members and performers remaining unclaimed for more than seven years are reallocated in accordance with the Distribution Policy.

g. Interest payable to Members and Performers

Interest is accrued on balances payable to members and performers who do not receive advances at a rate based on the average deposit rate earned by the company for the relevant periods.

h. Foreign currencies

Foreign currency assets and liabilities are translated at the rates of exchange ruling at the balance sheet date. Foreign currency transactions during the year are translated at the rate ruling on the date of the transaction. All foreign exchange differences are taken to the income, expenditure and distribution account in the year in which they arise.

i. Operating leases

Costs in respect of operating leases are charged to the income, expenditure and distribution account on a straight-line basis over the lease term.

j. Taxation

Corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

k. Deferred taxation

Deferred taxation has been recognised as a liability or an asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in the future, or a right to pay less taxation in the future, using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

An asset is not recognised to the extent that the transfer of economic benefits in the future is uncertain. Deferred tax assets and liabilities recognised have not been discounted.

l. Provisions for liabilities and charges

Dilapidations
Provision is made for dilapidations where the lease requires the reinstatement of the premises to its original state. The level of provision is based upon a damages report and is reviewed annually.

Legal costs
Provision is made for the estimated legal costs where litigation is pending and an obligating event has occurred prior to the balance sheet date.

Refunds
Provision is made for all significant refunds made in the post balance sheet period which relate to licence fees received in the year.

Provisions for liabilities and charges are not discounted and any movements in the provisions are recorded in the income, expenditure and distribution account.

	YEAR ENDED 31 DECEMBER 2008 £'000	YEAR ENDED 31 DECEMBER 2007 £'000
2. LICENCE FEE INCOME		
Licence fee income comprises the following:		
Public performance and dubbing income	54,167	48,976
Broadcasting income	58,076	56,849
International income	15,405	9,141
	127,648	114,966
Analysis of turnover by territory of origin:		
United Kingdom	112,243	105,825
Rest of Europe	13,997	7,241
Rest of World	1,408	1,900
	127,648	114,966
3. NET INCOME FROM OPERATING ACTIVITIES BEFORE INTEREST AND TAXATION		
Net income from operating activities before interest and taxation is stated after charging:		
Fees payable to the company's auditor for the audit of the company's annual accounts	54	52
Fees payable to the company's auditor and its associates for other services:		
Taxation services	5	29
Other assurance services	107	122
Depreciation	995	906
Operating lease rentals:		
Land and buildings	855	840
Motor vehicles	31	26

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

	YEAR ENDED 31 DECEMBER 2008 £'000	YEAR ENDED 31 DECEMBER 2007 £'000
4. ANTI-PIRACY/COPYRIGHT PROTECTION CONTRIBUTIONS		
BPI (British Recorded Music Industry) Limited	1,554	1,443
The International Federation of the Phonographic Industry	869	927
Impala	50	50
	2,473	2,420
5. INTEREST PAYABLE		
Interest payable on Member and Performer balances	2,903	2,476
6. EMPLOYEES AND DIRECTORS		
a. Gross staff costs during the year amounted to:		
Wages and salaries	8,527	7,772
Social security costs	757	704
Other pension costs	220	183
	9,504	8,659
b. Average number of employees during the year:	Number	Number
Office and management	210	194
c. Directors' emoluments:	£'000	£'000
Total directors' emoluments	1,424	1,532
Emoluments in respect of the highest paid director amounted to:		
Aggregate emoluments	671	740
Defined benefit pension scheme – accrued pension at end of year	10	9
	Number	Number
Number of directors to whom retirement benefits are accruing under the defined benefit pension scheme	4	4
7. TRANSACTIONS WITH DIRECTORS		
There were no other transactions with directors during the year.		

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

	YEAR ENDED 31 DECEMBER 2008 £'000	YEAR ENDED 31 DECEMBER 2007 £'000
8. TAXATION		
The charge for taxation for the year is calculated on disallowable items after the deduction of capital allowances.		
Current Tax		
UK corporation tax	–	–
Adjustment in respect of prior periods	–	–
Total current tax credit for the year	–	–
The tax assessed for the year differs from the standard rate applying in the UK (2008: 21%, 2007: 20%). The differences are explained below:		
Net income from ordinary activities before taxation	110,268	99,485
Net income from ordinary activities at the UK tax rate 21% (2007:20%)	23,156	19,897
Effects of:		
Permanent differences	(23,125)	(19,875)
Accelerated capital allowances and other timing differences	(31)	(22)
Current tax credit for the year	–	–
The company had an unprovided deferred tax asset at 31 December 2008 as follows:		
Capital allowances in excess of depreciation	224	128
Other timing differences	4	21
Net deferred tax asset – unprovided	228	149

No provision has been made for this deferred tax asset on the basis that given that the majority of the company's net income is not taxable, the availability of suitable future taxable profits is not certain.

The standard rate of corporation tax in the UK applicable to small companies changed from 20% to 21% on 1 April 2008. Accordingly, the company's profits from this period are taxed at 21%.

	FIXTURES, FITTINGS & OFFICE EQUIPMENT £'000	COMPUTER EQUIPMENT & SOFTWARE DEVELOPMENTS £'000	TOTAL £'000
9. TANGIBLE ASSETS			
Cost			
Balance at start of year	290	9,851	10,141
Additions	188	403	591
Disposals	(51)	(46)	(97)
Balance at end of year	427	10,208	10,635
Accumulated Depreciation			
Balance at start of year	161	6,583	6,744
Charge for the year	68	927	995
Disposals	(51)	(46)	(97)
Balance at end of year	178	7,464	7,642
Net Book Value at end of year	**249**	**2,744**	**2,993**
Net Book Value at start of year	129	3,268	3,397

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

	31 DECEMBER 2008 £'000	31 DECEMBER 2007 £'000
10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR		
Trade creditors	334	25
Other taxation and social security	2,921	4,017
Other creditors and accruals	9,272	9,039
Deferred income	30,112	30,849
Amounts due to members and performers	73,441	71,003
	116,080	114,933

The distributions to members and performers cannot be separately identified until the usage returns in respect of that period have been received and matched against the repertoire database. This reflects the Distribution rules driven by the Council Directive No 92/100/EEC of 19 November 1992 ('The Rental Directive') introduced in the UK with effect from 1 December 1996.

	AT 1 JANUARY 2008 £'000	UTILISED IN THE YEAR £'000	INCREASE FOR THE YEAR £'000	AT 31 DECEMBER 2008 £'000
11. PROVISIONS FOR LIABILITIES AND CHARGES				
Provision for dilapidations	855	–	–	855
Provision for legal costs	455	(455)	825	825
Provision for refunds	–	–	234	234
	1,310	(455)	1,059	1,914

Dilapidations

The dilapidations provision represents the amount required to reinstate the premises to a state as required under the lease, which expires in 2012. The provision will be fully utilised in 2012.

Legal Costs

Legal costs are provided as required for cases where litigation is pending. This provision is expected to be utilised in 2009.

Refunds

Provision is made for all significant refunds made in the post balance sheet period which relate to licence fees received in the year.

	31 DECEMBER 2008 £'000	31 DECEMBER 2007 £'000
12. COMMITMENTS		
Operating Lease Commitments		
At 31 December 2008 the company was committed to making the following payments during the next year in respect of operating leases:		
Land and Buildings		
Leases which expire after 2 – 5 years	869	870
Motor Vehicles		
Leases which expire within 1 year	19	3
Leases which expire within 2 – 5 years	8	26

13. PENSION COSTS

The company operates a defined benefit scheme in the UK with assets held in a separately administered fund. The basis on which the net pension liability is recognised in the financial statements is set out in note 1. The scheme was closed to new entrants from 1 July 2003.

A full actuarial valuation using the projected unit method was carried out at 30 June 2006 and updated to 31 December 2008 by a qualified independent actuary.

The company is currently contributing to the Scheme at a rate of 15.3% of pensionable salaries and is making additional contributions of £150,000 per annum until 30 June 2010, reverting to 15.3% of pensionable salaries from 1 July 2010.

	31 DECEMBER 2008	31 DECEMBER 2007
13. PENSION COSTS CONTINUED		
The major assumptions used by the actuary were (in nominal terms):		
Rate of increase in salaries	4.20%	4.90%
Rate of increase of pensions in payment	2.70%	3.40%
Rate of increase of pensions in deferment	2.70%	3.40%
Discount rate	6.50%	5.80%
Inflation assumption	2.70%	3.40%
Expected return on scheme assets	6.54%	7.40%

The expected return on scheme assets is based on market expectations at the beginning of the financial period for returns over the life of the asset. The expected return on equities has been determined by including a premium over fixed interest securities to reflect the out performance of equities relative to fixed interest securities.

	31 DECEMBER 2008 £'000	EROA%	AMOUNT%	31 DECEMBER 2007 £'000	EROA%	AMOUNT%
The assets in the scheme, the expected rates of return and the amounts recognised in the balance sheets are as follows:						
Equities	7,602	6.70%	95%	9,702	7.55%	95%
Gilts	389	3.70%	5%	486	4.55%	5%
Other (cash)	25	2.00%	0%	48	5.50%	0%
Total market value of assets	8,016			10,236		
Present value of scheme liabilities	(9,264)			(12,380)		
Deficit in the scheme	(1,248)			(2,144)		
Related deferred tax asset	263			450		
Net pension liability	(985)			(1,694)		

No differences in the value of plan assets arise as a result of the adoption of FRS17 (revised).

	YEAR ENDED 31 DECEMBER 2008 £'000	YEAR ENDED 31 DECEMBER 2007 £'000
13. PENSION COSTS CONTINUED		
The amount recognised in the income, expenditure and distribution account:		
Current service cost	(343)	(408)
Interest on pension scheme liabilities	(730)	(556)
Expected return on pension scheme assets	775	733
Total	(298)	(231)
Actual return on assets	(2,650)	468
Changes in the present value of the defined benefit obligation are as follows:		
Opening defined benefit obligation	12,380	11,303
Current service costs	343	408
Employee contributions	86	97
Interest costs	730	556
Actuarial (loss)/gain	(4,203)	96
Benefits paid	(72)	(80)
Closing defined benefit obligation	9,264	12,380
Changes in the fair value of plan assets are as follows:		
Opening fair value of scheme assets	10,236	9,301
Expected return on assets	775	733
Actuarial loss	(3,424)	(265)
Employer contributions	415	450
Employee contributions	86	97
Benefits paid	(72)	(80)
Closing fair value of scheme assets	8,016	10,236

	YEAR ENDED 31 DECEMBER 2008 £'000	YEAR ENDED 31 DECEMBER 2007 £'000	YEAR ENDED 31 DECEMBER 2006 £'000	YEAR ENDED 31 DECEMBER 2005 £'000	YEAR ENDED 31 DECEMBER 2004 £'000
13. PENSION COSTS CONTINUED					
Amounts for current and previous four years:					
Defined benefit obligation	(9,264)	(12,380)	(11,303)	(9,640)	(7,879)
Scheme assets	8,016	10,236	9,301	8,343	6,242
Deficit	(1,248)	(2,144)	(2,002)	(1,297)	(1,637)
History of experience gains and losses:					
Adjustment due to change in assumptions	4,205	(95)	(686)	(727)	(239)
Experience adjustments on scheme assets	(3,425)	(266)	(88)	1,066	89
Total amount recognised in statement of total recognised gains and losses:	780	(361)	(774)	339	(150)

The cumulative loss recorded in the statement of total recognised gains and losses in respect of the defined benefit pension scheme and related deferred tax asset is £1,731k (2007: £2,324k).

	YEAR ENDED 31 DECEMBER 2008 £'000	YEAR ENDED 31 DECEMBER 2007 £'000
14. RETAINED RESERVES – INCOME, EXPENDITURE AND DISTRIBUTION ACCOUNT		
At start of year	(2,324)	(1,812)
Actuarial gain/(loss) on the pension scheme	780	(361)
Movement in deferred tax on the pension scheme	(187)	(151)
	(1,731)	(2,324)

	YEAR ENDED 31 DECEMBER 2008 £'000	YEAR ENDED 31 DECEMBER 2007 £'000
15. RECONCILIATION OF NET INCOME FROM OPERATING ACTIVITIES BEFORE INTEREST AND TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES		
Net income from operating activities before interest and taxation	108,667	97,724
Depreciation	995	906
Difference between pension charge and cash contributions	(72)	(42)
Decrease/(increase) in debtors	11,283	(18,152)
Increase in creditors	393	725
Increase/(decrease) in provisions	604	(493)
Net cash inflow from operating activities	121,870	80,668
16. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS		
(Decrease)/increase in cash in the period	(4,615)	4,742
Increase/(decrease) in cash placed on fixed term deposits	18,000	(2,000)
Changes in net funds resulting from cash flows	13,385	2,742
Net funds at 31 December 2007	78,520	75,778
Net funds at 31 December 2008	91,905	78,520

	AT 1 JANUARY 2008 £'000	CASH FLOW £'000	AT 31 DECEMBER 2008 £'000
17. ANALYSIS OF CHANGES IN NET FUNDS			
Cash at bank and in hand	23,520	(4,615)	18,905
Short-term investments	55,000	18,000	73,000
	78,520	13,385	91,905

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